

WEEKLY ECONOMIC COMMENTARY

Week beginning 8th October 2018

ECONOMIC DATA ROUNDUP

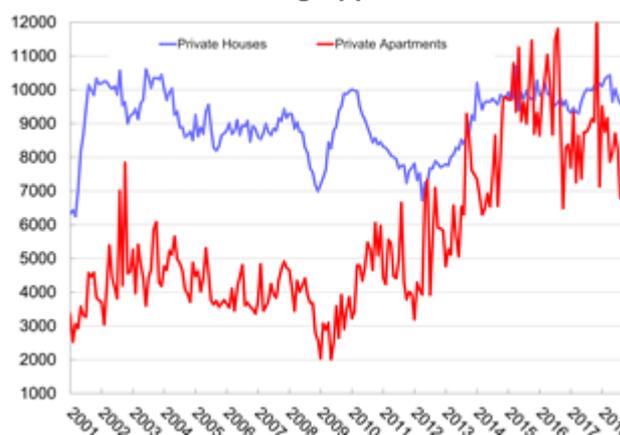
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Building Approvals	August	-9.4%	-5.2%
Retail Sales	August	+0.3%	+0.0%
Trade Balance	Sept	\$1.604bn	\$1.551bn

Residential building approvals fell 9.4% in August and comes on the back of a revised 4.6% fall in July, with approvals now down 13.6% over the year. The volatile private multi-unit (apartments) segment fell 17.2% in August to be down 23.7% over the year – the lowest level since October 2016 and before that since June 2014. Detached private-sector house approvals fell by 1.7% to be 4.4% below the level of a year ago.

Core Logic data showed that dwelling prices in the eight capital cities fell by 0.6% in September to be 3.7% lower over the year and marked the 11th consecutive monthly fall. The current housing downturn was driven by falls in Sydney, Melbourne, Perth and Darwin. Dwelling price growth in Perth has been negative since June 2014.

Building Approvals

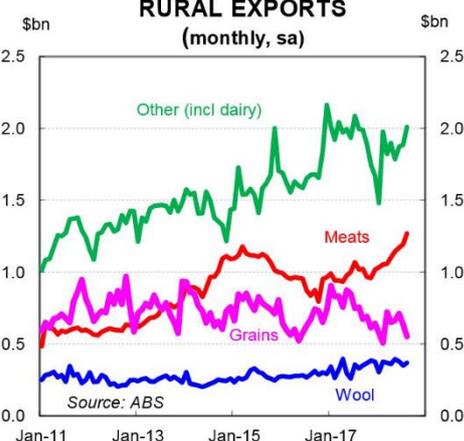


Retail sales increased by 0.3% in August with annual growth now up to 3.8%, the fastest pace since May 2017. Increases were widespread in August with sales up in the categories of department stores (+0.9%), clothing & footwear (+0.8%), restaurants and cafes (+0.7%), other (+0.7%) and household goods (+0.2%). Spending on food was flat over the month while electrical goods fell 0.5%. Sales rose in every state except the Northern Territory and were particularly strong in South Australia (+0.7%), Tasmania (+0.6%) and New South Wales (+0.5%).

The **trade balance** increased in September to a surplus of \$1.604bn with exports up 0.5% and imports up 0.4%. Exports were up due to a 3% rise in rural exports (as higher meat exports following drought-induced higher slaughter rates and other rural exports offset falls in drought affected exports of cereals) and a 13% jump in gold exports more than offsetting a 1% fall in non-rural exports (iron ore exports fell 3% and coal export fell 2%). The rise in imports was almost totally due to a 9% rise in capital goods imports (in the “civil aircraft and confidentialised items” category).

The RBA left the cash rate unchanged again after their monthly board meeting last week. The accompanying statement was upbeat on the state of the labour market noting that the unemployment rate remains at a six-year low of 5.3% while wages growth had “picked up a little”. On housing, the RBA seems comfortable with what is happening. Although some lenders had increased their variable mortgage rates, credit conditions are “tighter than they have been for some time” and competition for lending to good credit remains strong.

RURAL EXPORTS
(monthly, sa)



Data over the next week

Economic Data	Date	Period	Forecast	Previous
ANZ Job Ads	08 September	Sept	-0.2%	-0.6%
BAB Business Survey - Conditions	09 September	Sept	n/a	+15
BAB Business Survey - Confidence	09 September	Sept	n/a	+4
Westpac/MI Consumer Sentiment	10 September	Oct	n/a	-3.0%
Housing Finance	12 September	Aug	-2.0%	+0.4%

ECONOMIC COMMENTARY

LAST WEEK

US-China trade tensions continue to dominate markets with continual headlines of tariffs and retaliatory actions dictating sentiment. The uncertainty surrounding the Italian budget also added to the negative market sentiment last week pushing Italian bond yield to a four and a half year high. After the US Federal Reserve delivered the third rate hike for 2018 at their September meeting, the release of strong payrolls and manufacturing data confirmed that the US economy is booming, pushing US bond yields to seven-year highs last week on growing economic optimism and increased expectations of another US rate hike this year.

Reaction to the RBA board meeting was muted, as it should have been with no move to the official cash rate for the 24th consecutive meeting and little change to the accompanying commentary.

In other news, the IMF is worried about the world economy, signalling that they will cut global growth forecast next week, citing rising protectionism and tighter credit. While the worldwide expansion remains the fastest in seven years, new trade barriers are "hurting not only trade itself, but also investment and manufacturing as uncertainty continues to rise," she said in Washington.

By the close on Friday, the 90-day bank bill was trading at 1.92% from 1.94% a week earlier. In the long term maturities, three and 10 year bond yields closed at 2.02% and 2.72% respectively, from 2.05% and 2.67% a week earlier.

CURRENCY

The Australian dollar fell over a cent last week trading through the psychological 72 and then 71 cent level as trade war negotiations, a stronger US dollar and no move on rates by the RBA weighed on the currency. Economists began to focus on the fact that the RBA's cash rate is now 75 basis points lower than the US cash rate, the widest gap since the Australian dollar was floated 35 years ago and this differential is only set to grow as the US continues to raise interest rates while the RBA remains on hold.

By the close last Friday, the Australian dollar was trading at USD0.7059 from USD0.7212 a week earlier.

EQUITIES

The Dow Jones closed at a new record high of 26,774 mid last week, up 12% since the start of the September quarter (a near 50% annualised return in the last three months) before increased expectations of further US rate hikes saw the share market pare back some of the gains later in the week. Our share market didn't follow the offshore lead, banking stocks weighing on our market as the prospect of a credit crunch increased, the index losing 20 points over the week.

By the close last Friday, the S&P/ASX200 Index was trading at 6,185.5 compared to 6,207.6 a week earlier.

THIS WEEK

The highlight this week will be the RBA's latest financial stability review on Friday. With recent weakness in house prices there may be some interest on the RBA's assessment of the housing market. That said, the RBA is expected to maintain a generally optimistic view. On the data front, the releases of the latest monthly business survey and consumer confidence on Tuesday and Wednesday may show that the US-China trade war and the weaker housing market are weighing on sentiment at the moment.

INTEREST RATE VIEW

The RBA has continued to provide guidance that the next move in the official cash rate is most likely up, while in the knowledge that house prices are trending lower and that credit conditions have tightened. While financial markets appear to be currently pricing a 40% probability of a rate hike by the end of 2019, some economists remain of the view that rates will remain on hold through 2019 and well into 2020.

<u>Economic Data</u>	<u>12 months ago</u>	<u>6 months ago</u>	<u>3 months ago</u>	<u>1 month ago</u>	<u>Now</u>
Official Cash Rate	1.50	1.50	1.50	1.50	1.50
90 day Bank Bill	1.70	2.04	2.06	1.93	1.92
180 day Bank Bill	1.91	2.13	2.18	2.12	2.11
1 year swap	1.82	1.98	2.02	1.93	1.92
3 year swap	2.17	2.21	2.16	2.05	2.11
5 year swap	2.57	2.56	2.50	2.37	2.49
10 year swap	2.98	2.86	2.82	2.73	2.89
AUD/USD	0.7763	0.7669	0.7408	0.7145	0.7059
S&P/ASX200 Index	5,710.7	5,788.7	6,272.3	6,143.8	6,185.5

CHART OF THE WEEK

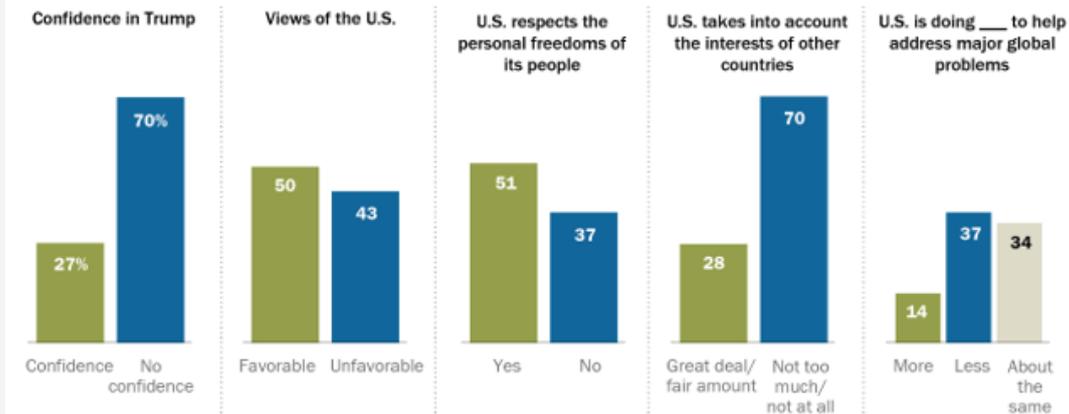
Trump's international rating remains low

President Donald Trump has shaken global faith in US leadership, an international survey found, as confidence in him lags behind other major world leaders including Russia's Vladimir Putin and China's Xi Jinping.

The Pew Research Centre found 70% of more than 26,000 people surveyed across 25 countries this year said they lacked confidence in Trump, compared with 27% who said they trusted the American president's handling of international affairs.

Still, respondents in almost every country said it would be better for the US to remain as the top global power, rather than China, which is seen as a rising power.

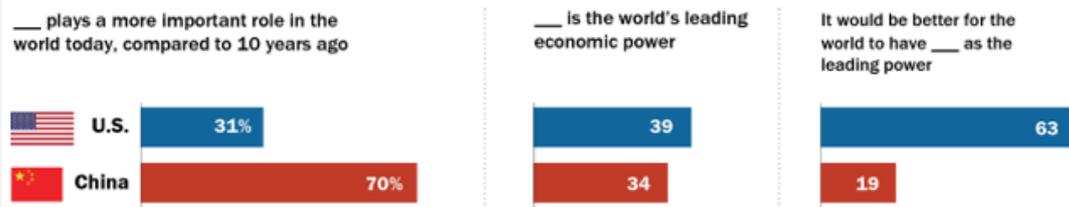
America's international image in 2018



Note: Percentages are medians based on 25 countries.
Source: Spring 2018 Global Attitudes Survey. Q17a, Q30b, Q35a, Q38 & Q39.

PEW RESEARCH CENTER

How people see the balance of power between the U.S. and China

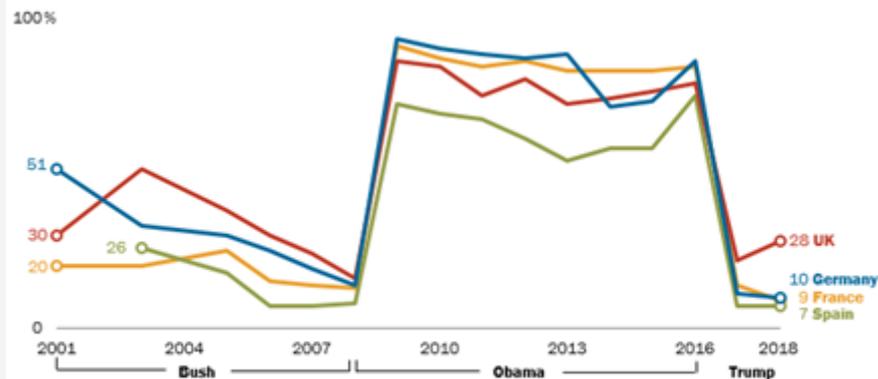


Note: Percentages are medians based on 25 countries.
Source: Spring 2018 Global Attitudes Survey. Q29, Q31, Q32a & Q33.

PEW RESEARCH CENTER

Confidence in Trump remains low in key EU countries

Confidence in the U.S. president to do the right thing regarding world affairs



Source: Spring 2018 Global Attitudes Survey. Q35a.

PEW RESEARCH CENTER

Source: Pew Research Centre, Global Attitudes & Trends,
Article by: Richard Wike, Jacob Poushter, Laura Silver, Janelle Fetterolf & Kate Devlin, 1st October 2018

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